

# **Pakistan Development Update**

## Recent Economic Developments, Outlook, & Risks

Tuesday April 4, 2023

Islamabad



# Key messages from Pakistan Development Update

Growth is slowing and inflation is rapidly rising

Pakistan is facing external and fiscal sustainability challenges

Outlook is uncertain and depends on the ambition and speed of reforms

# Economic activity remained subdued in H1 FY23



Economic activity is estimated to have sharply slowed in H1 FY23



Agriculture is impacted by flooding and difficulties in obtaining critical inputs

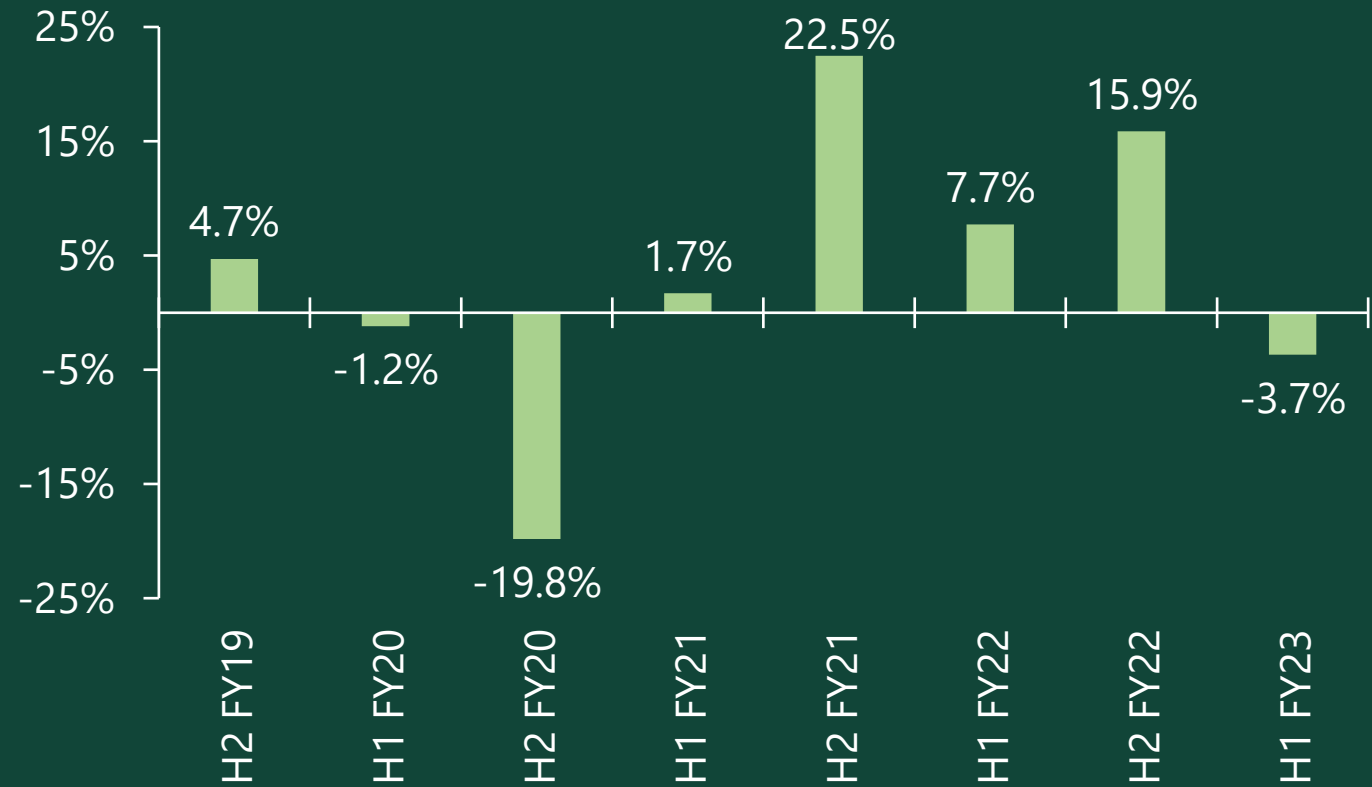


LSM contracted by 3.7 percent due to policy tightening and import restrictions



Rising costs and declining business & consumer confidence has impacted services sector

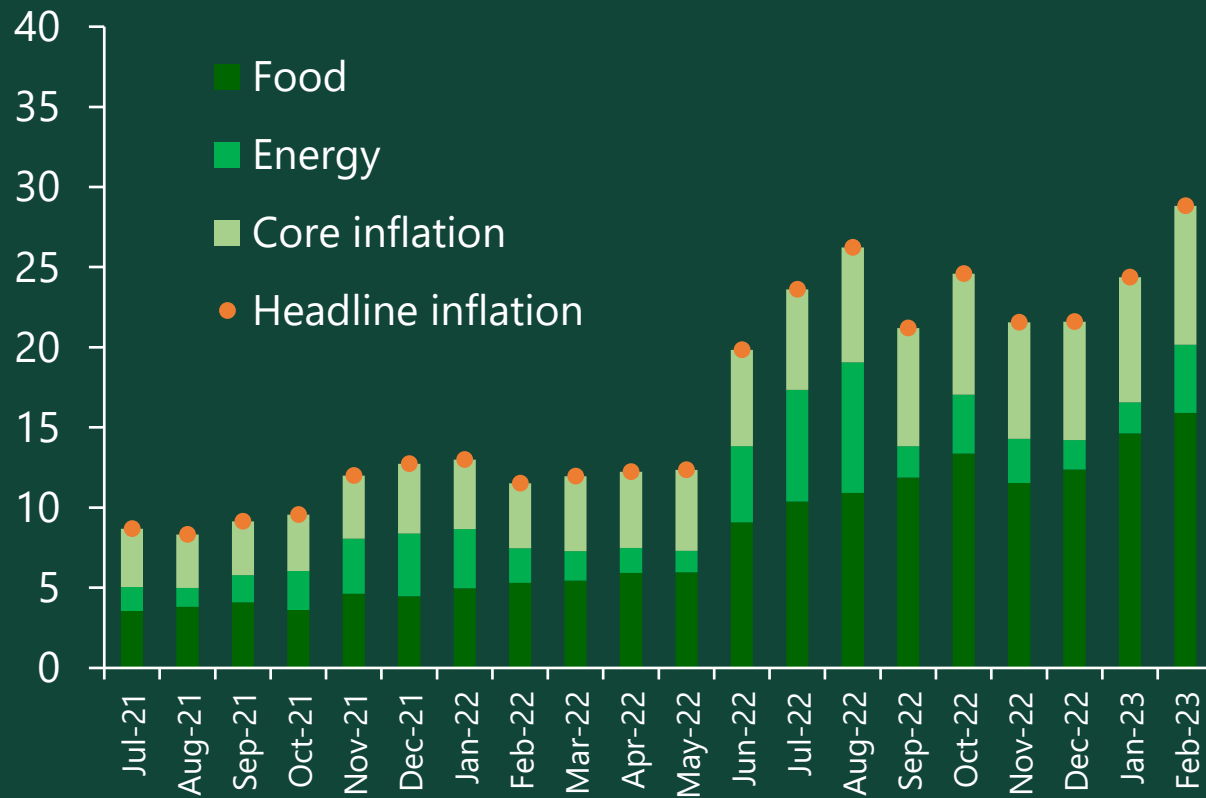
*Large Scale Manufacturing Growth  
(y-o-y)*



Sources: Pakistan Bureau of Statistics

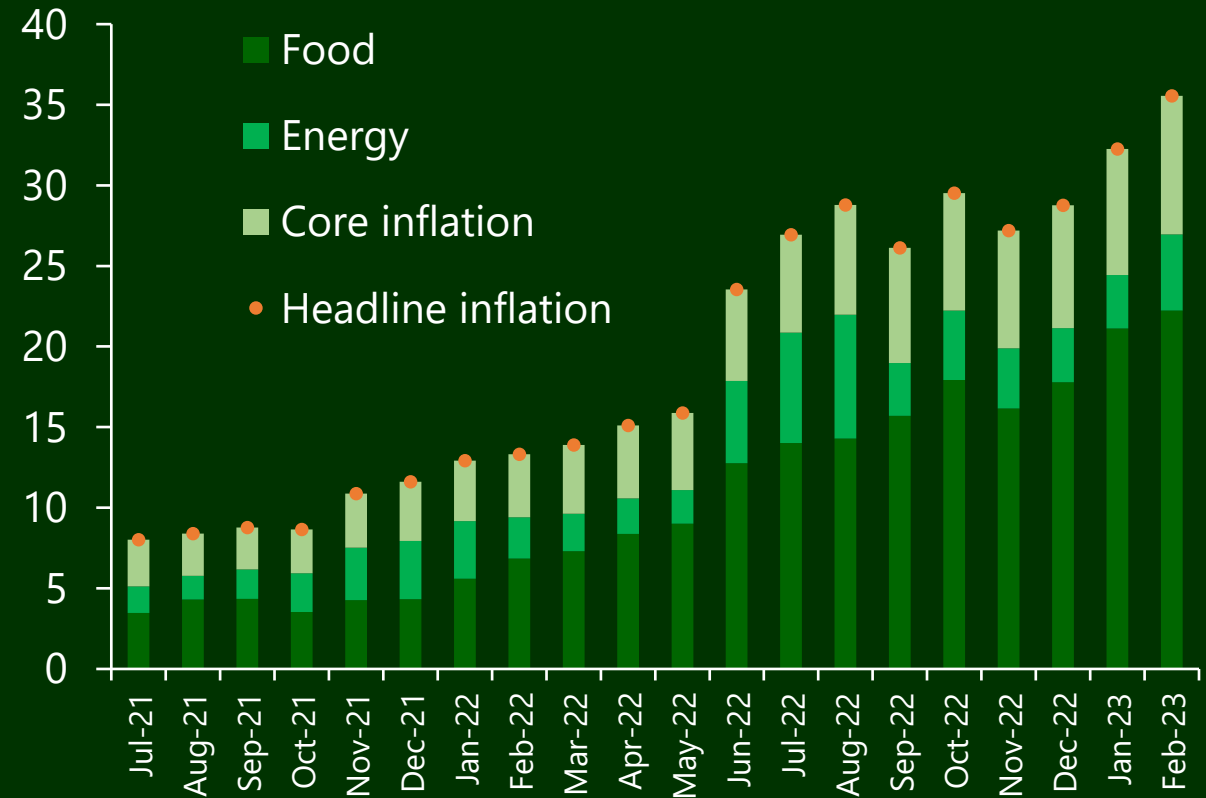
# Inflation in H1 FY23 rose to a multi-decade high

*Contribution to headline inflation in urban areas  
(Percentage points)*



Source: Pakistan Bureau of Statistics and World Bank staff calculations

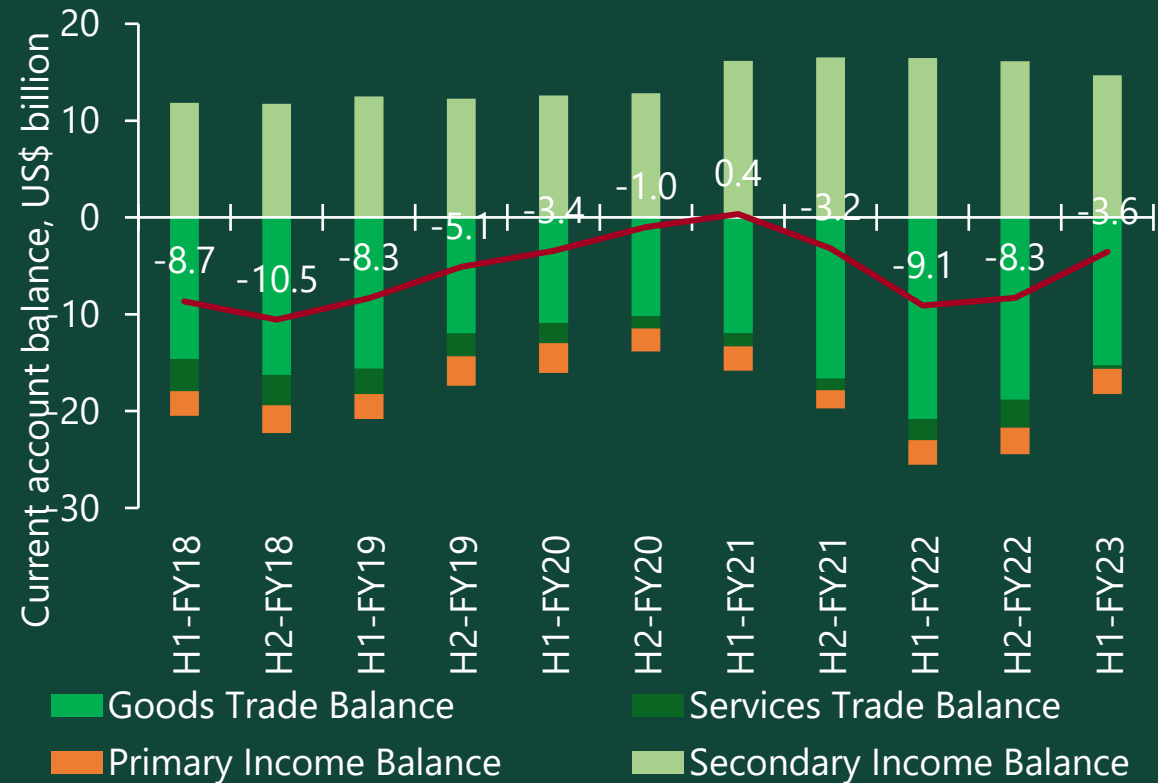
*Contribution to headline inflation in rural areas  
(Percentage points)*



Source: Pakistan Bureau of Statistics and World Bank staff calculations

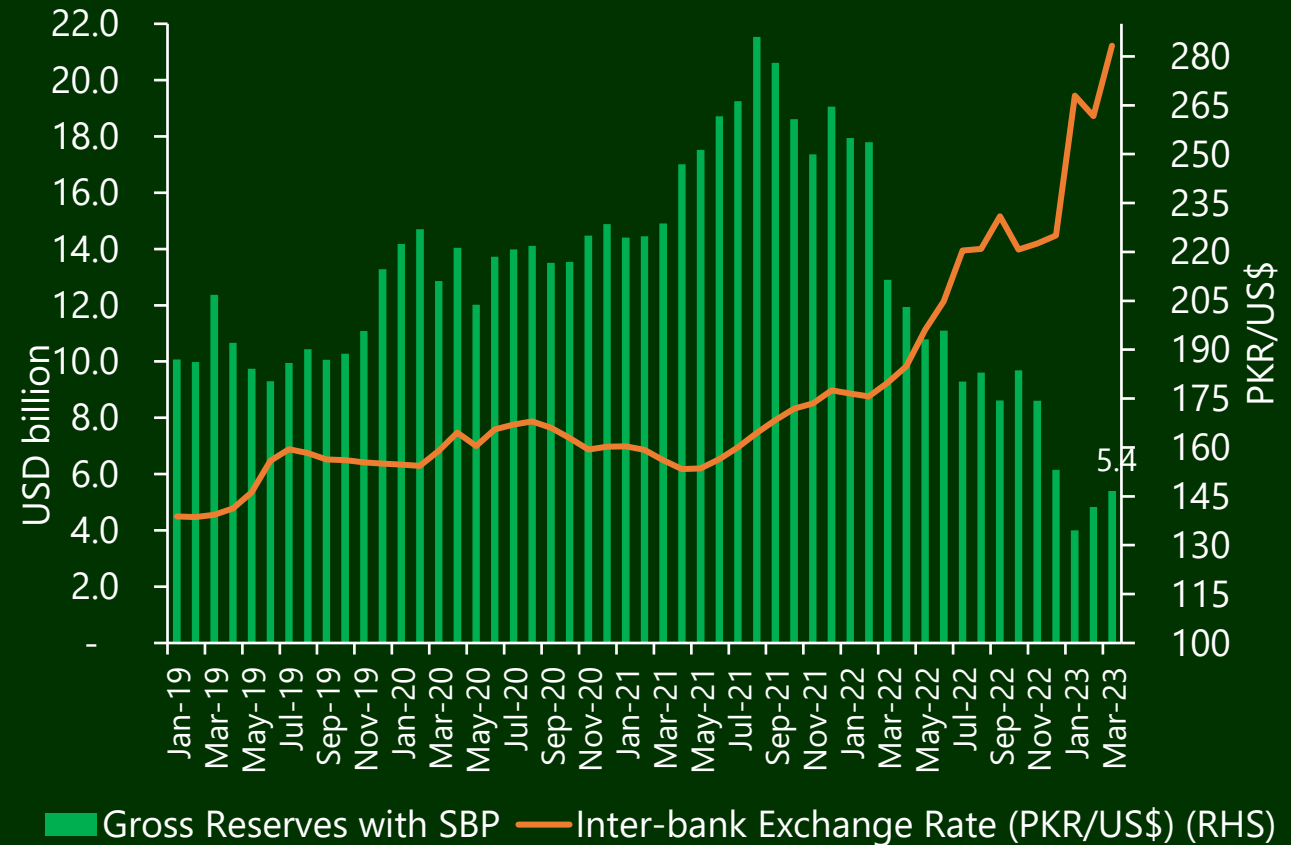
# Pakistan's external position weakened despite a narrowing of the current account deficit

Half yearly Current Account Deficit



Source: State Bank of Pakistan, World Bank staff calculations

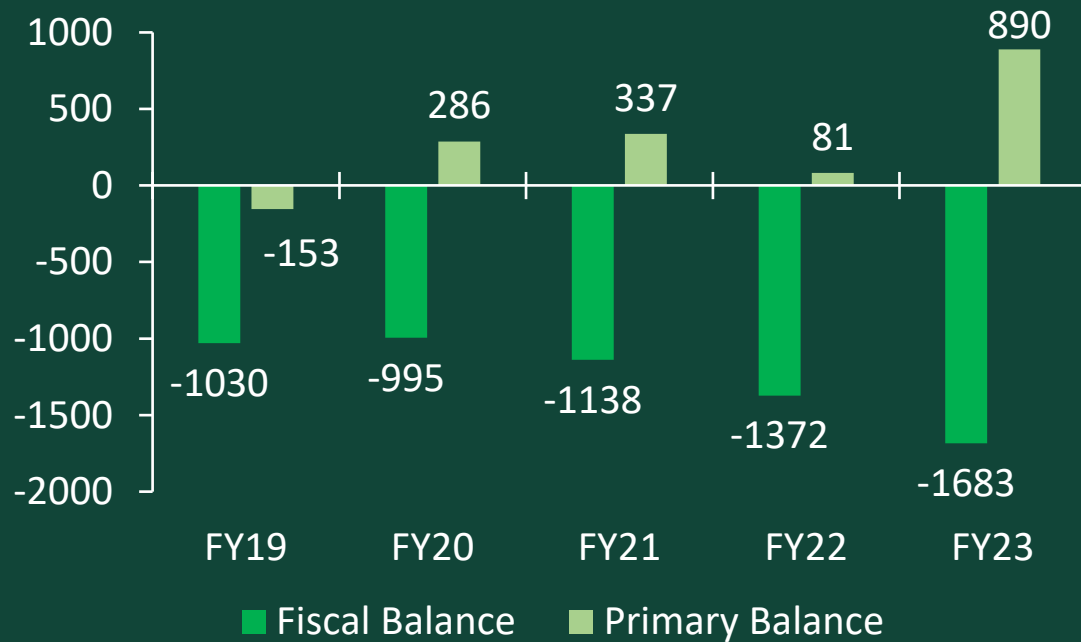
Foreign Exchange Reserves and PKR/US\$ Exchange Rate



Source: State Bank of Pakistan and WB staff calculations

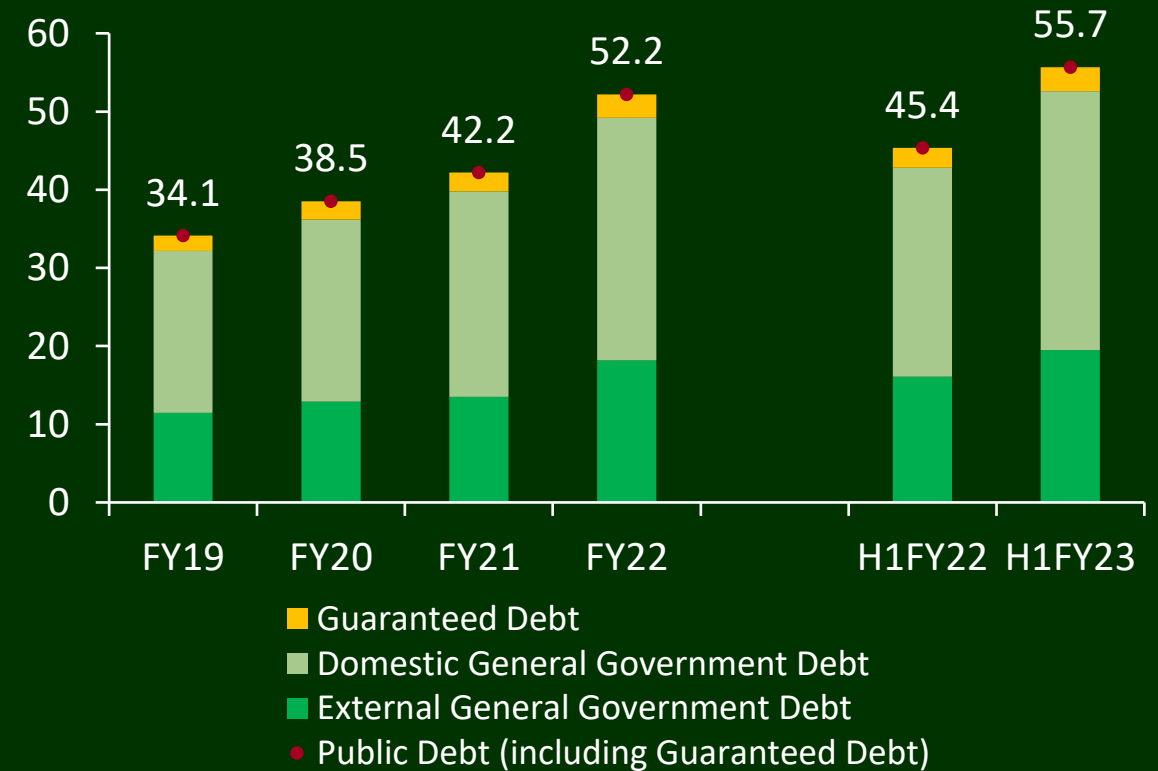
# Despite consolidation efforts, the fiscal deficit increased in H1 FY23 due to rising debt servicing

*Consolidated Fiscal and Primary Balance (excluding grants) in H1 - PKR billion*



Sources: Ministry of Finance, World Bank staff Calculations

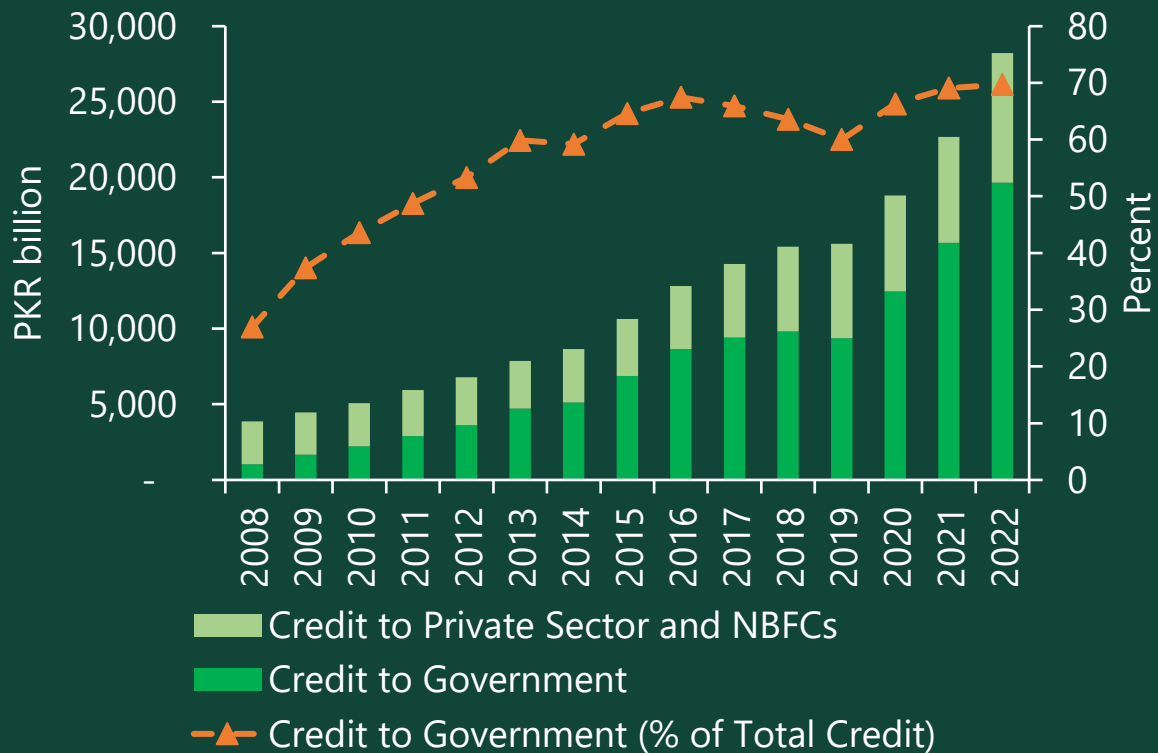
*Public and Publicly Guaranteed Debt– PKR trillion*



Sources: Ministry of Finance, World Bank staff Calculations

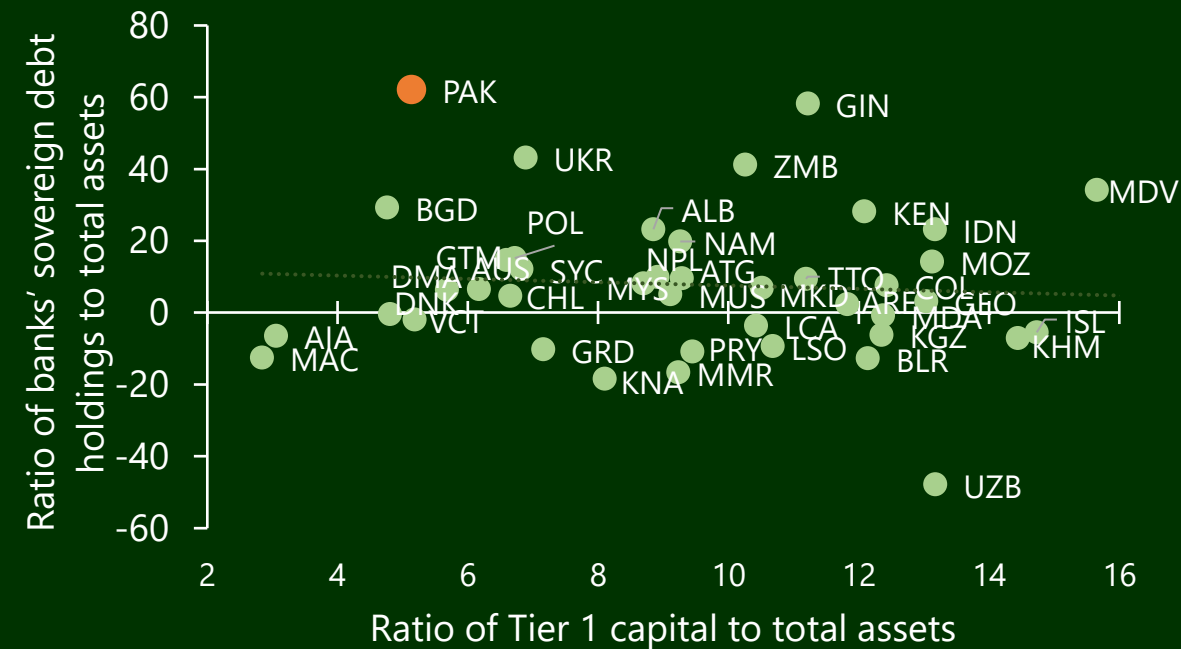
# The banking sector's exposure to the sovereign has grown significantly in recent years

*Government Borrowing from Banks FY08-22*



Sources: World Bank staff Calculations based on SBP data

*Tier 1 Capital-to-Total Assets Ratio and Banks' Holdings of Sovereign Debt, 2021*



Sources: Reproduced from Pakistan Country Economic Memorandum

# The macroeconomic outlook is uncertain and depends on effective implementation of reforms

Pakistan faces multiple downsides risks due to rising public debt levels and depleting international reserves

Government needs to:

- Implement & sustain macroeconomic and structural reforms agreed under the IMF's Extended Fund Facility (EFF)
- Secure much-needed external refinancing and new disbursements to restore macro-stability and confidence

Sustaining progress and implementing a broader reform agenda is critical for the outlook

- Requires strong political ownership
- Requires effective and credible implementation



# Macroeconomic outlook

## Pakistan Macroeconomic Outlook (FY23-25)

	FY20	FY21	FY22e	FY23f	FY24f	FY25f
<b>Real GDP Growth, at constant factor prices</b>	-0.9	5.7	6.0	0.4	2.0	3.0
<b>Agriculture</b>	3.9	3.5	4.4	-1.0	2.5	2.8
<b>Industry</b>	-5.7	7.8	7.2	-2.3	1.5	2.9
<b>Services</b>	-1.2	6.0	6.2	1.8	2.1	3.0
<b>Inflation (Consumer Price Index)</b>	10.7	8.9	12.2	29.5	18.5	10.0
<b>Current Account Balance</b>	-1.5	-0.8	-4.6	-2.0	-2.1	-2.2
<b>Fiscal Balance (excluding grants, % of GDP)</b>	-7.1	-6.1	-7.9	-6.7	-6.3	-6.1
<b>Debt (% of GDP)</b>	81.1	75.6	78.0	74.0	72.1	72.2
<b>Primary Balance (excluding grants, % of GDP)</b>	-1.6	-1.2	-3.1	-0.6	-0.5	-0.4

# Implement reforms

Pakistan can sustain long-term growth by implementing fiscal and productivity enhancing reforms

Fiscal reforms should be anchored around:

- Fiscal consolidation through; i) raising revenues; ii) cutting wasteful expenditures, and iii) improving expenditure quality
- Divert fiscal savings towards growth-enhancing social and physical infrastructure

Eliminate distortions to enhance productivity growth:

- Tax and trade policies that discourage investments in the tradable sector and incentivize selling in domestic market
- Subsidies that are biased against diversification and innovation
- Investment laws that discriminate against foreign investors

# Thank You

Adnan Ghumman  
([aghumman@worldbank.org](mailto:aghumman@worldbank.org))

## PAKISTAN DEVELOPMENT UPDATE

April 2023

Recent Economic Developments,  
Outlook, and Risks

